

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)	
THE OIL CONSERVATION DIVISION FOR THE)	
PURPOSE OF CONSIDERING:)	
)	
APPLICATION OF DAVID H. ARRINGTON OIL)	CASE NOS. 12,828
AND GAS, INC., FOR COMPULSORY POOLING,)	
LEA COUNTY, NEW MEXICO)	
)	
APPLICATION OF DAVID H. ARRINGTON OIL)	and 12,840
AND GAS, INC., FOR COMPULSORY POOLING,)	
LEA COUNTY, NEW MEXICO)	
)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 21st, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 21st, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

March 21st, 2002
Examiner Hearing
CASE NOS. 12,828 and 12,840 (Consolidated)

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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR YATES PETROLEUM CORPORATION
and PURVIS OIL CORPORATION:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 11:15 a.m.:

3 EXAMINER STOGNER: Call and consolidate Cases
4 12,828 and 12,840, and both cases involve David H.
5 Arrington Oil and Gas, Inc., as the Applicant, and both
6 cases are for compulsory pooling in Lea County, New Mexico.

7 At this time I'll call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses.

10 MR. CARR: May it please the Examiner, William F.
11 Carr with the Santa Fe office of Holland and Hart, L.L.P.
12 We represent Yates Petroleum Corporation and Purvis Oil
13 Corporation. I do not have a witness.

14 EXAMINER STOGNER: How do you spell Purvis?

15 MR. CARR: P-u-r-v-i-s.

16 EXAMINER STOGNER: Any other appearances?

17 Will the two witnesses please stand to be sworn
18 at this time?

19 (Thereupon, the witnesses were sworn.)

20 EXAMINER STOGNER: Is there any need for opening
21 statements at this time?

22 MR. BRUCE: I don't think so, Mr. Examiner.

23 Mr. Examiner, these are the pooling forms that
24 Mr. Brooks has requested.

25 EXAMINER STOGNER: Okay.

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ENICK DIFFEE,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. Enick Diffee, I reside in Roswell, New Mexico.

Q. What is your occupation?

A. I'm an independent petroleum landman, and I'm working on a consulting basis for David H. Arrington Oil and Gas, Inc.

Q. Have you previously testified before the Division as a petroleum landman?

A. Yes.

Q. And are you familiar with the land matters involved in this case?

A. Yes.

Q. And when you testified previously, were your credentials accepted as a matter of record?

A. Yes.

MR. BRUCE: Mr. Examiner, I tender Mr. Diffee as an expert petroleum landman.

EXAMINER STOGNER: Mr. Diffee, when you appeared before, were you an independent or were you working with somebody?

1 THE WITNESS: I've been independent for a long
2 time, yes, sir.

3 EXAMINER STOGNER: I just haven't seen you in a
4 while. So welcome back, and so accepted.

5 Q. (By Mr. Bruce) Mr. Diffie, let's first
6 concentrate on Case 12,828, which is the pooling of the
7 east half of Section 1 of Township 15 South, 34 East.

8 A. Okay.

9 Q. Would you identify Exhibit 1 for the Examiner and
10 discuss its contents?

11 A. Yes, Exhibit 1 is a land plat highlighting the
12 east half of Section 1, Township 15 South, Range 34 East,
13 and we seek an order pooling the east half of Section 1,
14 from the surface to the base of the Mississippian formation
15 for all pools or formations spaced on 320 acres.

16 We also seek to pool the northeast quarter for
17 160-acre units, the north half of the northeast quarter for
18 80-acre units, and the northeast quarter, northeast quarter
19 for 40-acre units.

20 Q. Okay. What is the ownership of the well unit?
21 And I refer you to your Exhibit 2?

22 A. Yes. Lot 1 of Section 1 is an undivided fee
23 tract. And then the balance of the east half of the
24 section, being Lot 2, and the south half, northeast quarter
25 and southeast quarter is an undivided fee tract.

1 And then Exhibit 2, as you will see, identifies
2 the owners for Lot 1, Yates Petroleum Corp. and its
3 partners, owning the approximately 66-1/2-percent
4 leasehold, Purvis Oil Corporation owning a unleased mineral
5 interest of approximately 5.2 percent, and then David H.
6 Arrington Oil and Gas owning 28.22 percent, which should
7 equate to 100 percent of the interest.

8 And then Lot 2, the south half, northeast quarter
9 and southeast quarter, here again we have Yates Petroleum
10 and its partners with a leasehold of approximately 61.875
11 percent, and Purvis Oil Corp. again with an unleased
12 mineral interest of 5.2 percent, David H. Arrington with a
13 26.67-percent leasehold, and Omni Oil Properties with a
14 6.25-percent leasehold.

15 Q. Now, Mr. Diffie, on Exhibit 1, it shows it as
16 kind of one undivided fee tract, but the Lot 1 ownership is
17 different than the rest of -- the balance of the half
18 section?

19 A. Yes, it is.

20 Q. Now, in looking at these acreage figures, this is
21 a nonstandard unit, is it not?

22 A. That's correct.

23 Q. Nonstandard spacing unit. And regarding those
24 units, that has been handled or will be handled
25 administratively; is that correct?

1 A. That is my understanding.

2 Q. Okay. What is the footage location of the well?

3 A. It is 660 feet from the north line and 990 feet
4 from the east line.

5 Q. Let's discuss your efforts to obtain the
6 voluntary joinder of the parties in the well. What is
7 Exhibit 3?

8 A. Exhibit 3 contains copies of our correspondence
9 with interest owners in the well unit. We mailed a
10 proposal letter on December the 4th, year 2001, which is
11 enclosed, with an AFE and a request to participate in the
12 well.

13 Q. Okay. At this time you do seek to pool the Yates
14 entities and Purvis Oil Corporation?

15 A. Yes.

16 Q. And if they later join in the well, will you
17 notify the Division of their voluntary joinder?

18 A. Yes.

19 Q. Now, besides this letter that went out, have
20 there been any discussions or telephone calls?

21 A. Yes, there's been numerous telephone conferences,
22 there's been in-person meetings to provide geological data,
23 and it's also been brought to my attention that Purvis Oil
24 Corp. has signed an AFE.

25 Q. Okay. And Purvis Oil Corporation has been

1 provided with a JOA, has it not?

2 A. Yes, it has.

3 Q. Okay. In your opinion, has Arrington made a
4 good-faith effort to obtain the voluntary joinder of the
5 interest owners in the well?

6 A. Yes.

7 Q. Would you identify Exhibit 4 for the Examiner?

8 A. Exhibit 4 is a copy of the AFE for the well. The
9 well's proposed depth is 14,000 feet, and it is an
10 estimated dryhole cost of \$1,047,000 and a completed well
11 cost of \$1,580,000.

12 Q. Is this cost in line with the cost of other wells
13 drilled to this depth in this area of Lea County?

14 A. Yes.

15 Q. Does Arrington request that it be designated
16 operator of the well?

17 A. Yes, they do. However, we want it to be known
18 that Yates Petroleum Corporation may end up with operations
19 of all parties mutually agreed.

20 Q. Okay, so if any order comes out, you would like
21 it that either Arrington or its designatee be made the
22 operator of the well?

23 A. Yes.

24 EXAMINER STOGNER: Say that one more time.

25 MR. BRUCE: In other words, Mr. Examiner, what

1 Arrington is requesting is that Arrington or the company
2 that it designates in the Division's records be operator of
3 the well. Yates Petroleum Corporation may end up operating
4 if they mutually agree on this prospect.

5 EXAMINER STOGNER: You may proceed, thank you.

6 Q. (By Mr. Bruce) Mr. Diffie, do you have a
7 recommendation for the amounts which should be paid to the
8 operator for supervision and administrative expenses?

9 A. We request that \$6000 a month be allowed for a
10 drilling well and \$600 a month be allowed for a producing
11 well.

12 Q. And are these amounts equivalent to those
13 normally charged by Arrington and other operators in this
14 area for wells of this depth?

15 A. Yes.

16 Q. And do you request that this rate be adjusted
17 periodically, as provided by the COPAS accounting
18 procedure?

19 A. Yes.

20 Q. And were the interest owners notified of this
21 hearing?

22 A. Yes, they were.

23 Q. And is Exhibit 5 my affidavit of notice with the
24 letters and green cards attached?

25 A. Yes.

1 Q. Were Exhibits 1 through 5 prepared by you, under
2 your supervision or compiled from company business records?

3 A. Yes.

4 Q. And in your opinion, is the granting of this
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Arrington Exhibits 1 through 5 in Case 12,828.

10 EXAMINER STOGNER: Exhibits 1 through 5 in Case
11 12,828 will be admitted into evidence if there's no
12 objection.

13 MR. CARR: No objection.

14 MR. BRUCE: Mr. Examiner, one thing before we
15 move on, and this will show up in the next case also. In
16 this matter, I'm not quite sure -- I forgot to write down
17 what the well footage requirements are in the Morton-Lower
18 Wolfcamp Pool. This well might be unorthodox in that pool,
19 and if that is, if the well is completed uphole at a later
20 time, then unorthodox location approval would be sought at
21 that time.

22 EXAMINER STOGNER: Are you referring to the
23 special rules and regulations of the Morton-Lower Wolfcamp
24 Pool, subject to Order R-2872 as amended by A Order, that
25 might require 150 from the center? Is that what you're --

1 MR. BRUCE: Yes, sir, I am.

2 EXAMINER STOGNER: Okay, so noted.

3 THE WITNESS: Gosh, you're good.

4 EXAMINER STOGNER: Make sure that's down on the
5 record.

6 (Laughter)

7 THE WITNESS: The "Gosh, you're good"?

8 EXAMINER STOGNER: Yes.

9 MR. BRUCE: I pass the witness, Mr. Examiner.

10 EXAMINER STOGNER: Mr. Carr?

11 MR. CARR: I have no questions.

12 EXAMINATION

13 BY EXAMINER STOGNER:

14 Q. Who's naming these wells these days?

15 A. That would be then Arrington crew.

16 Q. Okay. In looking at Exhibit Number 2, now, this
17 is the breakdown, Lots 1 and 2 --

18 A. Yes.

19 Q. -- now, how about the remainder of the east half
20 of this? What -- Who's the working interest there?

21 A. Okay, Lot 1 would otherwise be referred to as
22 being the northeast of the northeast; and then the balance
23 would be Lot 2, the south half, northeast, and the
24 southeast quarter.

25 Q. Okay, so when you're referring to Lot 1 and 2,

1 you're not talking about --

2 A. It would be the north half of the northeast.

3 Q. Okay, I'm sorry, I was reading it wrong. When I
4 saw Lot 1 I --

5 A. Uh-huh.

6 Q. -- I'm seeing my error now.

7 A. Not a problem.

8 Q. I just saw Lot 2 and, well, where's the rest of
9 it? Now, I do see it.

10 A. Right, Lot 1 is a separate undivided fee tract,
11 and then the balance being an undivided interest.

12 Q. I guess I was just too preoccupied finding the
13 Morton Pool rules to catch that. You got me on that one.

14 MR. BRUCE: Mr. Examiner, if you'd like a further
15 breakdown by well unit of the interests --

16 EXAMINER STOGNER: No, that makes sense, I just
17 completely spaced that out.

18 Q. (By Examiner Stogner) What's the latest
19 communication with Yates Petroleum? Is there -- It seems
20 like you're next to some sort of an agreement at this
21 point.

22 A. Yes, again, just within a matter of days, it's
23 been the last, I guess -- telephone conversation, and of
24 course they were made aware of this hearing without a
25 doubt. And again, operations seem to be a matter of

1 question. But hopefully the AFE, joint operating
2 agreement, those being critical to the trade, are being
3 negotiated.

4 Q. And then the Purvis -- Is Yates acting on behalf
5 of Purvis, or are they separate entities?

6 A. Separate entity. Mr. Purvis has signed an AFE,
7 but we do not have an executed joint operating agreement
8 from him at this time.

9 Q. And the Omni Properties?

10 A. Omni Oil Properties is my company. I've taken a
11 lease from Apache Corporation, and Omni Oil Properties is a
12 sole proprietorship.

13 Q. And the Omni properties has voluntarily agreed?

14 A. Yes.

15 Q. Okay. So you're not here representing the
16 parties force pooling either?

17 A. No.

18 Q. Oh, okay.

19 A. Little twist.

20 (Laughter)

21 EXAMINER STOGNER: Okay, I have no other
22 questions at this time. Please proceed.

23 MR. BRUCE: Well, then we'd move on to the land
24 testimony in Case 12,840. And regarding -- Mr. Examiner,
25 Mr. McRae, our geologist, could also inform you of

1 discussions that he has had with Yates regarding the --
2 both of these two prospects.

3 EXAMINER STOGNER: I appreciate that, thank you.

4 Q. (By Mr. Bruce) Mr. Diffie, in Case 12,840, the
5 south half of Section 36, could you identify Exhibit 1 and
6 identify the land being pooled in this case?

7 A. Yes, Exhibit 1 is a land plat highlighting the
8 south half of Section 36, Township 14 South, Range 34 East.
9 We seek an order pooling the south half of Section 36 from
10 the surface to the base of the Mississippian formation for
11 all pools or formations spaced on 320 acres.

12 We also seek to pool the southeast quarter for
13 160-acre units, the east half of the southeast quarter for
14 80-acre units, and the southeast quarter, southeast quarter
15 for 40-acre units.

16 Q. Again, refer to your Exhibit 2 and identify the
17 working interest ownership in the well, please.

18 A. Yes, the south half of Section 36 is an undivided
19 fee tract, and the ownership would be Yates Petroleum
20 Corporation and its in-house partners with approximately
21 61.87-percent leasehold interest.

22 EXAMINER STOGNER: Hang on just a minute.

23 (Off the record)

24 EXAMINER STOGNER: Please proceed.

25 THE WITNESS: And Bonny Dotson, et al., that

1 being -- Bonny Dotson is the mother to Charlee Dotson and
2 her other daughter Charree Dotson. They have an unleased
3 mineral interest of 1.67 percent; Omni Oil Properties with
4 6.25 percent; and David H. Arrington Oil and Gas, Inc.,
5 with a leasehold interest of 30.22 percent.

6 Q. (By Mr. Bruce) Okay. And again, Omni is
7 voluntarily committed to the well?

8 A. Yes.

9 Q. And so the parties you seek to pool at this time
10 are the Yates Petroleum Corporation entities and the Dotson
11 people?

12 A. That is correct.

13 Q. Okay. What is the well location in this well
14 unit?

15 A. It is 825 feet from the south line and 1275 feet
16 from the east line.

17 Q. Okay. And again, Mr. Diffie, as to oil well
18 units, that location is unorthodox?

19 A. That's correct.

20 Q. And you are not seeking approval at this time,
21 but would seek approval at such time as the well may be
22 completed uphole in those zones?

23 A. Correct.

24 Q. What is Exhibit 3?

25 A. Exhibit 3 contains copies of our correspondence

1 with interest owners in the well unit. We mailed a
2 proposal letter on January the 28th of year 2002, which
3 enclosed an AFE and a request to participate in the well.

4 Q. Okay. Now, let's go through these. The first
5 one, Ensign Oil and Gas, is that interest committed to the
6 well?

7 A. Yes, it is.

8 Q. Okay. And then the second letter, Roy Dean
9 Campbell, has that interest been committed to the well?

10 A. Yes, it has.

11 Q. And then the next four, the Yates entities, Abo,
12 Myco, Yates Drilling and Yates Petroleum, and you seek to
13 pool those companies, do you not?

14 A. That's correct.

15 Q. And then you have the two Dotsons, Bonnie Dotson
16 as guardian and Charree Joe Dotson?

17 A. That's correct.

18 Q. Okay, and you do seek to pool those two people?

19 A. Yes.

20 Q. Okay. Now, with respect to them, this letter
21 went out January 28th. Had there been prior contacts with
22 them?

23 A. Yes, probably our first telephone conversation
24 was in August of 2001. We initially sent an oil and gas
25 lease along with a bank draft at that time, agreeing to --

1 well, they had verbally agreed to lease to us.

2 Then subsequent to that, we had not received a
3 response in a considerable period of time. We ended up
4 sending by Federal Express another oil and gas lease with a
5 bank draft. Subsequent to that package being sent we
6 received the bank draft for collection, but we did not
7 receive the oil and gas lease.

8 So then we prepared a third package, again sent
9 by Federal Express, and to this point we have not received
10 any response whatsoever to that third package. We've
11 called numerous times without any answer. There's no
12 answering machine. It's been very difficult for us to try
13 to finalize our commitment to acquire an oil gas lease from
14 the Dotson family.

15 Q. Okay, so you've sent them three leases each, and
16 you've had numerous phone calls to them, but you could
17 never get a signed lease?

18 A. That's correct.

19 Q. And so finally you sent out this well proposal
20 letter?

21 A. Absolutely.

22 Q. Okay. And again with Yates, there have been
23 personal meetings and phone calls?

24 A. Yes.

25 Q. And Mr. McRae could inform the Examiner more as

1 to those meetings?

2 A. That's correct.

3 Q. In your opinion, has Arrington made a good-faith
4 effort to obtain the voluntary joinder of the interest
5 owners in the well?

6 A. Yes.

7 Q. And with respect to both of these tracts, by the
8 way, Mr. Diffie, they're fee tracts. Even though the
9 number of working interest owners is small, are these
10 tracts quite split up into individual interest owners?

11 A. Yes, they are.

12 Q. And so title is quite difficult on this?

13 A. Yes, it has been.

14 Q. And months have been spent by Arrington putting
15 these wells together?

16 A. Between Arrington and also Yates.

17 Q. Okay. Would you identify Exhibit 4 for the
18 Examiner?

19 A. Exhibit 4 is a copy of the AFE for the well. The
20 well's proposed depth is 14,000 feet. It has an estimated
21 dryhole cost of \$999,000 and a completed well cost of
22 \$1,532,000.

23 Q. And is this cost in line with the cost of other
24 wells drilled to this depth in this area of Lea County?

25 A. Yes.

1 Q. Does Arrington request that it or the person it
2 designates be made operator of the well under the order?

3 A. Yes.

4 Q. And again, Yates Petroleum Corporation could end
5 up operating the well?

6 A. That's correct.

7 Q. What is your recommendation for the amounts which
8 should be paid to the operator for the supervision and
9 administrative expenses?

10 A. We request that \$6000 per month be allowed for a
11 drilling well and \$600 a month be allowed for a producing
12 well.

13 Q. And again, are these amounts equivalent to those
14 normally charged by operators in this area for wells of
15 this depth?

16 A. Yes.

17 Q. Do you also request that this rate be adjusted
18 periodically under the COPAS procedure?

19 A. Yes.

20 Q. And finally, were the interest owners notified of
21 this hearing?

22 A. Yes, they were.

23 Q. And is Exhibit 5 my affidavit of notice?

24 A. Yes.

25 Q. Were Exhibits 1 through 5 prepared by you or

1 under your supervision or compiled from company business
2 records?

3 A. Yes, sir.

4 Q. In your opinion, is the granting of this
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Arrington Exhibits 1 through 5 in Case 12,840.

10 MR. CARR: No objection.

11 EXAMINER STOGNER: Exhibits 1 through 5 in Case
12 Number 12,840 will be admitted into evidence at this time,
13 and I have no questions of Mr. Diffie.

14 Do you have any?

15 MR. CARR: I have no questions.

16 MR. BRUCE: Call Mr. McRae to the stand.

17 JOHN R. McRAE,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name and city of
23 residence for the record?

24 A. My name is John McRae, and I live in Midland,
25 Texas.

1 Q. Who do you work for and in what capacity?

2 A. Senior exploration geologist for David H.
3 Arrington Oil and Gas, Inc.

4 Q. Have you previously testified before the
5 Division?

6 A. Yes, I have.

7 Q. And were your credentials as an expert geologist
8 accepted as a matter of record?

9 A. Yes, they were.

10 Q. And are you familiar with the geology involved in
11 both of these Applications?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I tender Mr. McRae as
14 an expert petroleum geologist.

15 EXAMINER STOGNER: Any objection?

16 MR. CARR: No objection.

17 EXAMINER STOGNER: Mr. McRae is so qualified.

18 Q. (By Mr. Bruce) Before we get to the geology, Mr.
19 McRae, in your capacity as a landman could you tell the
20 Examiner what meetings and discussions you have had with
21 Yates regarding both of these wells?

22 A. I have talked to Yates, both their land
23 department and their geophysical and geological department.
24 Before we sent out our well proposals and before we sent
25 out notif- -- or applied for an application for force

1 pooling, I called them and let them know that they were
2 coming.

3 We have had numerous discussions by phone, again
4 between Arrington and Yates, concerning the locations of
5 these wells. And Frank Scheubel, the geophysicist for
6 Yates, traveled to Midland on March 13th or 14th -- it was
7 last Wednesday or Thursday; I'm not sure exactly which day
8 it was -- and met there in our office, and we discussed at
9 length these locations. And at that point he verbally
10 agreed with the locations.

11 MR. BRUCE: Okay. And I would suggest to the
12 Examiner that if you'd like to know anything about the well
13 names, it might be Mr. McRae who could answer that.

14 EXAMINER STOGNER: Well, you can cover that with
15 him.

16 Q. (By Mr. Bruce) Mr. McRae, would you identify
17 Exhibit 6 for the Examiner and tell him what it shows?

18 A. Yes, Exhibit 6 is simply an activity and location
19 map. It points out the well names that are of interest,
20 also the spacing units for the two wells.

21 The first is the Arrington Oil and Gas Number 1
22 Big Black Ant, and that is in the east half of Section 1 of
23 15 South, 34 East.

24 The second well is the David H. Arrington Number
25 1 Red Eyed Squealy Worm, located in the south half of 36 of

1 14 South, 34 East, and that also shows the proration unit.

2 Two key wells to our reason for the force pooling
3 is the Yates Petroleum Number 1 Papalotes State Unit, which
4 is located in the north half of 36 of 14 South, 34 East;
5 and to the south, the Yates Number 1 Chevy located in
6 Section 13 of 15 South, 34 East.

7 Q. Is the Papalotes State well producing?

8 A. Yes, it is.

9 Q. From the Morrow?

10 A. From the lower -- a lower Morrow sand. And that
11 well -- I didn't put on this map, but that well was the
12 first well drilled in the North Papalotes State Unit. That
13 unit consists of the north half of 36, all of Section 25
14 and all of Section 26, of 14-34.

15 Q. Why don't we move on to your second exhibit,
16 Number 7, and tell the Examiner why chose these well
17 locations and perhaps elements of the risk involved in
18 drilling these wells.

19 A. All right, Exhibit 7 is a structure map,
20 subsurface structure map, based on the top of the Austin
21 formation, which is the uppermost formation within the
22 Mississippian. It's also the surface that is immediately
23 below the Morrow.

24 And as you can see, there are two north-south-
25 trending faults. The one to the left runs approximately up

1 the west side of Section 14, 11 and 2 in 15 South, 34 East.
2 The second fault runs up through the middle of Section 13
3 and then trends off into the east of Section 12 of 15
4 South, 34 East.

5 And associated with these two faults are two
6 anticline with dip, as you can see on the map, plunging off
7 to the north. The main that one that we're interested in
8 at this point is Section 13 of 15 South, 34 East, and that
9 anticline plunges to the north and goes up through Sections
10 7 and 6 of 15-35 and then on up through 31 and 30 of 14-35.

11 There's an area of steep dip along the west side
12 of Section 6 of 15-35, and also the west half of 31 of 14-
13 35, and that may or may not be a fault, but there's steep
14 dip there.

15 The Yates Papalotes Unit was put together, and
16 the first well was drilled in the structural low
17 immediately downdip of the fault or the steep dip
18 associated with this north-plunging anticline. That well
19 was completed on 6-19 of 01, flowing 11.9 million cubic
20 feet of gas a day.

21 As that low -- The Yates Number 1 Chevy well,
22 also drilled down in Section 13 to the south, that well was
23 completed 12-21-01, flowing 5.3 million cubic feet of gas
24 per day. That well also was drilled in the structural low
25 immediately downthrown of the fault.

1 So our south half of 36, the Red Eyed Squealy
2 Worm, and the east half of Section 1, the Big Black Ant,
3 locations are picked to drill those wells in the structural
4 low immediately down thrown of the fault or the steep dip.

5 Q. Mr. McRae, do the Papalotes Unit well in the
6 north half of Section 36 and then the well to the south in
7 Section 13, do they produce from the same zone?

8 A. No, they don't. The Papalotes State Unit well in
9 the north half of 36 produces from a lower Morrow sand, and
10 the Chevy well, located in Section 13 to the south,
11 produces from a middle Morrow sand. Now, the Chevy well
12 also had a lower Morrow sand, but that sand appears to be
13 wet based on log calculations and was not tested by Yates
14 Petroleum.

15 Q. In looking at the risk involved, then, you do
16 have the discontinuity of the sands, as well as just the
17 pure depth of the well; is that correct?

18 A. That's correct.

19 Q. Are there any secondary objectives in this area?

20 A. The Wolfcamp and the Cisco produce oil in this
21 area. They're stratigraphic wells. Those zones come and
22 go, but there is a possibility there. There's also a
23 possibility in the Atoka sands and a possible in the
24 Austin, the top part of the Austin.

25 Q. These are clearly secondary objectives?

1 A. Very, yes.

2 Q. In your opinion, what penalty should be assessed
3 against any interest owner who goes nonconsent in either
4 well?

5 A. We are requesting 200 percent.

6 Q. Were Exhibits 6 and 7 prepared by you?

7 A. Yes, they were.

8 Q. And in your opinion, is the granting of this
9 Application in the interests of conservation and the
10 prevention of waste?

11 A. Yes.

12 Q. And could you illuminate the Division about the
13 naming of these wells?

14 A. Yes, we have a policy in our office where the
15 geologists are allowed to name the prospects but David H.
16 Arrington reserves the right to name the well, and he names
17 all of his wells after trout flies. The Big Black Ant was
18 named specifically because we took a fishing trip to the
19 San Juan River in northwestern New Mexico, and on that
20 particular day there had been a hatch of black ants, and we
21 caught many fish on ants.

22 The Red Eyed Squealy Worm I've never used, I've
23 never seen one, I don't even know if it's truly a fly. But
24 that's what he named it, so...

25 By the way, I name my prospects most of the times

1 after bass lures, just to tease him.

2 MR. BRUCE: I'd move the admission of Exhibits 6
3 and 7, Mr. Examiner.

4 EXAMINER STOGNER: Exhibits 6 and 7 will be
5 admitted into evidence.

6 Mr. Carr, your witness.

7 MR. CARR: Mr. Stogner, no questions, just an
8 observation. I'm glad to hear the discussion on how they
9 name their wells. I thought the Red Eyed Squealy Worm was
10 a nickname for their counsel.

11 (Laughter)

12 MR. CARR: I have no questions.

13 EXAMINER STOGNER: Okay, thank you, Mr. Carr.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. McRae, okay, the location of these two wells,
17 in particular the one that's in Case 12,840, this is the
18 one in 36, is there any particular reason that you chose
19 these locations?

20 A. Yes, sir. Yates Petroleum has a 3-D in this
21 area, and so do we, and we have worked the data in an
22 effort to pick the best location, and that's why Frank
23 Scheubel came over to the office, the geophysicist from
24 Yates. We sat down and looked at their data and ours and
25 agreed on a common location.

1 Q. And this was based on the lower Morrow or the
2 Morrow play?

3 A. We are targeting where the Morrow thickens, and
4 the seismic indicates that the Morrow thickens in these
5 structural lows. You cannot image the sands by seismic,
6 all we can do is predict where the Morrow is thick. And
7 statistically we found that where the Morrow is thick, you
8 generally have a chance for thicker sands and more numerous
9 sands.

10 Q. So if an upper interval is indeed found later on
11 in the 80-acre or the 40, whatever is applicable -- and
12 those are purely secondary in these two wells; is that
13 correct?

14 A. That's correct.

15 Q. But they're in areas in which there's a common
16 lease; is that correct? For both intervals, I believe?

17 A. In Section 36, it's my understanding -- correct
18 me if I'm wrong here -- the south half of 36, it's a common
19 ownership in the entire south half.

20 In Section 1, the well will be located in Lot 1,
21 which has slightly different ownership than the remainder
22 of Section 1.

23 Q. If I remember right, that's only unorthodox for
24 the 80, the one in Section 1, which has a laydown north-
25 half dedication; is that correct? I'm sorry, that's the

1 north half of the northeast quarter. And that would share
2 equally between the two?

3 MR. BRUCE: In Section 36 everything is uniform,
4 and in -- Yeah, in Section 1, it would be Lots 1 and 2
5 which would share in 80-acre spacing units.

6 EXAMINER STOGNER: At this time what I'm looking
7 at, should it be necessary to apply for a nonstandard
8 location, I think our record in this matter will suffice,
9 provided something doesn't change with ownership at the
10 time.

11 So that would make it easier for whoever the
12 operator is since we've had this discussion today, it's on
13 the record, just refer to the order number in the case
14 file. That would make it easier to get a standard location
15 through, as opposed to having to repeat or send additional
16 information.

17 MR. BRUCE: Yes, sir.

18 EXAMINER STOGNER: So that's the reason I bring
19 that up at this time.

20 Q. (By Examiner Stogner) Also the Austin, now, this
21 is new to me, this Austin structure. Now, the Austin is
22 the uppermost, as I understand it, the uppermost formation
23 in the Mississippian?

24 A. Yes, sir.

25 Q. And is this a recent formation discovery? Like I

1 say, I've never heard of this nomenclature before.

2 A. I believe it's been presented on numerous cross-
3 sections that have been presented here to the OCD. I have
4 not presented one where that has been defined.

5 In this local area, it has been my interpretation
6 and numerous other geologists' that I'm aware of, that the
7 upper part of the Mississippian, when you first go into the
8 Mississippian and you get into a cherty limestone, and then
9 it begins to shale, goes to 100-percent shale, and then you
10 get another carbonate sequence that shales up, and that's
11 the Chester, and then you go into the lower Miss. And
12 that's been a local nomenclature in this area that we've
13 used for years.

14 Q. And is that recognized -- Let's see, this is in
15 Eddy -- no, Lea County. Is it recognized in the District
16 offices of the Southeast New Mexico Office?

17 A. I'm not aware of that. We always say
18 Mississippian, but --

19 Q. Because it's in the Mississippian system or --

20 A. Right. I don't know the answer to that one.

21 EXAMINER STOGNER: I don't believe I have any
22 other questions of Mr. McRae.

23 MR. BRUCE: I have nothing further, Mr. Examiner.

24 EXAMINER STOGNER: You may be excused. Is there
25 anything additional, Mr. Carr?

1 MR. CARR: Nothing further.

2 EXAMINER STOGNER: Mr. Bruce, you mentioned
3 something in the very beginning of this case that -- David
4 H. Arrington or the designated operator. Do you wish that
5 this wording be included in an order?

6 MR. BRUCE: I would request that, simply -- That
7 would make it clearer if a change of operator is necessary,
8 that they would step into the shoes of Arrington under the
9 terms of the order.

10 EXAMINER STOGNER: Okay. If you'll provide me
11 just -- I don't necessarily mean a rough draft of the order
12 but a rough draft of that particular paragraph?

13 MR. BRUCE: Yes, sir.

14 EXAMINER STOGNER: Since this is somewhat new,
15 that would sure be of some help. Run it through Mr. Carr
16 too.

17 If there's nothing further in either of these
18 cases, then both 12,828 and 12,840 will be taken under
19 advisement. Thank you, gentlemen.

20 THE WITNESS: Thank you.

21 MR. BRUCE: Thank you

22 (Thereupon, these proceedings were concluded at
23 11:52 a.m.)

24 * * *

25
S. 12828-1/2840
heard by me on 21 March 2002
Michael H. Stogner
Oil Conservation Division

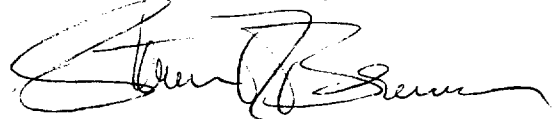
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter
and Notary Public, HEREBY CERTIFY that the foregoing
transcript of proceedings before the Oil Conservation
Division was reported by me; that I transcribed my notes;
and that the foregoing is a true and accurate record of the
proceedings.

I FURTHER CERTIFY that I am not a relative or
employee of any of the parties or attorneys involved in
this matter and that I have no personal interest in the
final disposition of this matter.

WITNESS MY HAND AND SEAL March 28th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002